Hershey Foods Corporation/1976 Annual Report

1976 Highlights

	1976	1975	% Change
Net sales from continuing operations	**$584,264,000**	$556,328,000	+ 5.0
Income from continuing operations	**$ 43,205,000**	$ 39,293,000	+ 10.0
Losses from discontinued operations	**—**	$ (1,433,000)	—
Loss related to disposal of discontinued operations	**—**	$ (4,898,000)	—
Net income	**$ 43,205,000**	$ 32,962,000	+ 31.1
Net income per common share			
Continuing operations	**$3.32**	$3.02	+ 9.9
Losses from discontinued operations	**—**	$(.11)	—
Loss related to disposal of discontinued operations	**—**	$(.38)	—
Net income per common share	**$3.32**	$2.53	+ 31.2
Dividends per share—			
Common stock	**$1.03**	$ .85	+ 21.2
Preferred stock	**—**	$ .60	—
Dividends paid	**$ 13,415,063**	$ 10,287,948	+ 30.4
Capital expenditures	**$ 18,374,000**	$ 10,203,000	+ 80.1
Stockholders' equity	**$225,638,000**	$195,847,000	+ 15.2
Equity per common share and equivalent at year end	**$17.32**	$15.04	+ 15.2
Outstanding common and equivalent shares at year end	**13,024,000**	13,024,000	—
Outstanding common shares at year end	**13,024,000**	13,024,000	—
Market prices of common stock—range during: First Quarter	**18½-23¼**	10⅛-17½	
Second Quarter	**20 -27**	16½-20⅞	
Third Quarter	**20 -27½**	14 -18¾	
Fourth Quarter	**18⅝-22½**	15 -19¾	

Quarterly dividends of 25¢ per share for the first three quarters and 28¢ per share for the fourth quarter were paid on common stock in 1976 compared with 20¢ per share for the first three quarters and 25¢ per share for the fourth quarter for 1975. Quarterly dividends of 15¢ per share were paid on the preferred stock in 1975.

Contents

Hershey Foods . . .

is a major domestic producer of chocolate and cocoa. Its Chocolate and Confectionery Division has plants in Hershey, Pa.; Oakdale, California; and Smiths Falls, Ontario, Canada.

It has two principal subsidiaries — San Giorgio Macaroni Inc., a large regional producer of pasta products, with major plants in Lebanon, Pa., and Louisville, Ky.; and Cory Food Services Inc., Chicago-based manufacturer of coffee-brewing equipment and other appliances and provider of the nation's largest office coffee service plan.

Headquartered in Hershey, Pa., the Corporation employs 7,140 people and has approximately 20,000 stockholders.

Directors P. A. Singleto[n] H. S. Mohler, L. C. Smit[h] and R. L. Uhric[h]

. . . and cocoa beans fro[m] Ghana, West Afric[a]

Hershey Foods Corporation • Hershey, PA 17033 • (717) 534-4200

Letter to Stockholders:

The year 1976 was one of the finest in the Company's history. It was a year of record sales and earnings. Sales advanced to $584,264,000, up 5% over 1975. Consolidated net income increased 31% over 1975 to $43,205,000, or $3.32 per common share.

In recognition of this record performance, our strong financial position, and our confidence in the excellent outlook for future long-term growth of your Company, the Board of Directors voted to increase the cash dividend on common stock to an annual rate of $1.12 per share, beginning with the December 15, 1976 dividend payment. The 1976 record performance resulted from a total effort on the part of your Company toward the accomplishment of its objective of steady growth in earnings and the maintenance of a strong financial position to serve as a foundation for the future development of the Company.

During 1976 the Chocolate and Confectionery Division again faced the problems of escalating costs of cocoa beans, as well as other inflationary cost pressures. It was necessary for the Division, in an effort to maintain a reasonable return on investment, to implement a combination of price increases and product weight reductions. The principal cause was the precipitous rise in the price of cocoa beans, during the second half of the year, when they doubled the high prices experienced in 1975. The year saw the New York spot price of Ghana beans open at 78.5¢ per pound and close at $1.57 per pound. While a decline in sugar prices allowed a price reduction for some items and a weight increase in standard bars at the beginning of the year, the significant rise in cocoa bean costs necessitated major price increases and weight adjustments at year-end. It was necessary at that time to introduce a standard bar which retails at 20¢.

Unfortunately, cocoa bean prices continued their unprecedented rise during early 1977. Spot prices for Ghana reached $2.01 per pound on February 7, 1977. Thus, on February 9, 1977, the Company announced further changes in prices and weights. Although we hope further price increases or weight decreases can be avoided, still more such adjustments will be necessary if cocoa bean prices do not recede significantly from these high levels.

It should be emphasized that at no time has the importance of consumer value, or your Company's ability to maintain it, been sacrificed. Our standard bar is currently 20% larger than our standard bar of 1950. In terms of price, the average consumer's ability to purchase our larger bar at 20¢ is approximately the same as it was twenty-six years ago when the smaller bar cost a nickel.

Despite two price/weight adjustments during 1976, chocolate and confectionery sales have again reached a record high. Confectionery products demonstrated strength, particularly in continuing acceptance of Kit Kat. During the year, Reese's Crunchy was introduced and gained a high level of consumer acceptance in its test markets. Rolo and Toffo, introduced earlier, were expanded into larger areas of the country.

In the Food Products and Food Services operations, San Giorgio showed continuing case volume and tonnage increases during the year. A lower cost of flour allowed the Company to make price reductions. Existing market share was increased while entry into the New York market was initiated. Cory Food Services was again profitable but continued to feel the pressure of steadily increasing coffee prices.

The year 1977 is certain to be a challenging one for your Company. Unprecedented escalation of commodity prices, if sustained, and potential operating constraints because of energy shortages provide significant obstacles that must be overcome. While we are confident of the soundness of our marketing concepts and the ability of management to cope with these conditions, it is not possible to predict the 1977 results.

We do intend to spend record amounts for advertising and promotional allowances. To support our increased marketing effort, we are planning to increase our capital expenditures to improve and modernize our product processes and provide additional product line capacity. It is expected that our spending level in 1977 will be approximately $28,000,000 compared with $18,374,000 in 1976.

The management of your Company is committed to the strategic objective of developing a long-term improvement in growth. As part of these efforts, on February 16, 1977, the Company acquired a 16% interest in AB Marabou, the leading confectionery company in Sweden. This move offers both Hershey and Marabou an opportunity to exchange technological information and pursue joint research pro-

irectors J. C. Suerth,
. E. C. Dearden,
nd R. A. Zimmerman

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conching vat.

grams for the development and introduction of new products in the confectionery industry. Moreover, this new investment in Sweden offers Hershey an additional opportunity for growth in international markets.

For a long time Hershey has believed that the escalation of raw material prices encourages research into alternate ingredients and that, in this era of advanced technology, high quality ingredients can be developed which will enable us to maintain the traditional Hershey quality and flavor. Your Company has been evaluating a product developed by a major U.S. company and has found this product to be identical to pure cocoa butter produced from cocoa beans. The extent to which this development may impact on our Company, or other potential users in the industry, cannot be predicted at this time. But, if successful, this breakthrough in technology could have substantial impact on the future ingredient costs of the Company, while enabling us to maintain the traditional high quality of Hershey products.

In 1976 we re-examined and challenged each of our businesses with a goal of evaluating their operations to determine their strengths, their weaknesses and areas of vulnerability. To achieve our objectives of a balanced and diversified growth of the Company, we must have a superior management team. Thus, within the past year, we have had numerous promotions from within and also have added new talent from outside the Company.

Our Board was strengthened by the addition of two outside directors in November, 1976. They were: John C. Suerth, chairman and chief executive officer of Gerber Products Company, and Philip A. Singleton, president of Singleton Associates International. Samuel A. Schreckengaust, Jr. assumed the position of Vice President, Corporate Counsel, with the responsibility of developing an inhouse legal staff to support the operations of the Company. Richard M. Marcks was named Vice President, International, with the responsibility of developing broader international business for our Company.

Other executives promoted during the year were William P. Noyes, to Vice President, Human Resources; William F. Suhring, to Vice President, Corporate Development; and Kenneth L. Wolfe, to Treasurer.

Another significant accomplishment in 1976 was the continued excellent financial strength of the Company. During the year, it was not necessary for the Company to make any working capital borrowings. Additionally, the commercial paper ratings of the Company were assigned the highest credit levels of Standard & Poor's and Moody's Investor Service. On November 10, 1976, a secondary offering of 675,000 shares of Hershey Foods Corporation common stock was made. The offering was well received by the investing community and fully subscribed.

A part of our commitment to be a quality Company includes our responsibilities to our employees, to the community and to our environment. Our programs of Affirmative Action, Product Safety and Environmental Protection attest to the Company's concern for its social responsibility and its economic responsibility to its stockholders.

The accomplishments of your Company in 1976 would not have been possible without the diligent effort and dedication of the thousands of loyal and industrious employees of Hershey Foods Corporation. We thank the employees for their contribution during the year, and we are confident of their ongoing contribution to the future of the Company.

H. S. Mohler

Chairman of the Board

Dearden

Vice Chairman of the Board
and Chief Executive Officer

R. A. Zimmerman

President and Chief Operating Officer

Directors J. Hemphi
S. A. Schreckengaust, J
and J. C. Jamiso

. . . and Hershey's Kiss
emerging from cooli
tunn


CORY
San Giorgio
SPAGHETTI SAUCE
DELMONICO
SPAGHETTI
SAUCE
San Giorgio
ELBOW
MACARONI
San Giorgio
San Giorgio
CURLY
SPAGHETTI
ALPHABETS
San Giorgio
SPAGHETTI - 8
HERSHEY'S
HOT
COCOA MIX
12
10 Junior Bars
HERSHEY'S
COCOA
HERSHEY'S
instant
REAL CHOCOLATE FLAVOR
JUST ADD
MILK
COLD or HOT
HERSHEY'S
Baking Chocolate
UNSWEETENED
Miniatures
HERSHEY'S
SYRUP
GENUINE CHOCOLATE FLAVOR
HERSHEY'S
SPECIAL DARK
HERSHEY'S
krackel
HERSHEY'S
ALMONDS
KISSES
Kit Kat
Rolo
Reese's
Reese's
Reese's
2 PEANUT BUTTER CUPS

Chocolate and Confectionery Division

	1976	1975
Sales (in millions)	$509.1	$483.4
% Change	+ 5.3	
Operating Income (in millions) ...	$ 84.6	$ 80.0
% Change	+ 5.8	

The Chocolate and Confectionery Division's strong performance of 1975 was exceeded in 1976. Record sales of $509,126,000 and operating income of $84,578,000 were achieved. These accomplishments were highlighted by record first and fourth quarter sales results. Sales growth of 5.3% in 1976 was accompanied by an operating income increase of 5.8%. Underlying these dollar advances were significant volume and tonnage increases for the year.

Products

Established products and new products both contributed to the record sales levels. Consumer advertising, trade promotions, consumer promotions, and field sales force provided support for the continued strengthening of our brand franchises.

Confectionery tonnage rose, due primarily to the bar weight increases early in the year and strong sales performance demonstrated by Milk Chocolate with Almonds, Kit Kat, and Hershey-Ets. Sales of bars for fund raising more than doubled. Market share gains were registered in most product categories including large and giant bars, where competition stiffened with the entry of new domestic and foreign brands.

Grocery products—led by Syrup, Hot Cocoa Mix, and Chips—again had an increase in tonnage following the substantial gains of 1975. Virtually all grocery brands shared in this increase.

Various new products and test programs were initiated or expanded during the year. Reese's Crunchy Peanut Butter Cups were launched in selected markets and gained consumer and trade acceptance. It is still too early, however, to evaluate or predict their ultimate success. Rolo and Toffo—Rowntree Mackintosh products—were expanded to a larger area of the country. Plans to begin producing Rolo domestically are well underway. Kit Kat again reached record sales levels and expansion of production capacity is now underway.

Chocolate Covered Raisins, introduced in 1975, did not reach the sales and profit targets that were established for it and was discontinued. A number of other confectionery and grocery products are in various stages of consumer, store, and market testing. As their potential to contribute to the growth of the Division is determined, introduction will be carried forward aggressively.

The higher advertising and sales promotion expenditures were undertaken for both offensive and defensive reasons in 1976. The competitive environment was intensified as world sugar prices receded from their record high levels of 1974. This and the rebounding U.S. economy helped lure many manufacturers back into consumer advertising on a larger scale and resulted in a major intensification of trade and consumer promotion activity.

Increasing demand for commercial time, lessening of available commercial time due to government and industry regulation, and inflation in media costs necessitated a proportionately larger expenditure to maintain the competitive standing of our brand franchises. Based on test programs that have proved successful in previous years and the early part of 1976, we expanded the number of brands receiving advertising support on a national scale and rolled new products out of test markets into larger sections of the country.

Large capital investments are required to insure the successful introduction of new products and the consistent high quality of existing products. Sizeable expenditures were made in 1976, and even larger outlays are planned for 1977.

In 1977 the Division's management team will face the challenge of maintaining the consistent growth in sales and operating income over the past three years while coping with unprecedented high costs of the major raw material, cocoa beans. While the price of sugar has declined to more reasonable levels, this decline has been more than offset by soaring cocoa bean prices, increased milk and packaging material costs, and higher wages and salaries paid to the employees of the Division. Attempting to offset these spiraling costs, Division management successfully instituted several major cost reduction programs in manufacturing plants, warehouses, and offices.

Raw Materials

Cocoa beans, the major raw material used by the Chocolate and Confectionery Division, had, in 1976 and early 1977, the most dramatic price increase in their history. The spot price of Ghana cocoa beans was 78.5¢ per pound on January 1, 1976 and $1.5675 on December 31, 1976. On February 7, 1977 it reached $2.01 per pound.

Because of unfavorable weather conditions in West Africa, where two-thirds of the world crop of cocoa beans is grown, it is predicted that crops in Ghana and Nigeria will be the lowest in over 15 years. Improved production in other areas of the world is not expected to offset these declines, and it is estimated that the present world crop will be about 10% below the previous one.

When prices had declined in 1975 and early 1976 from their record highs of 1974, consumption of chocolate increased. This higher demand had the effect of bidding up prices for the smaller supply. It is incredible, however, that a 10% decline in production would trigger a 150% increase in cocoa bean prices. Contributing to the recent increases is the activity in the market of highly sophisticated "chartists" and other speculative elements. It is anticipated that these record high prices will cause a decline in consumption. However, it is difficult to predict when such a development will serve to reduce prices to more reasonable levels.

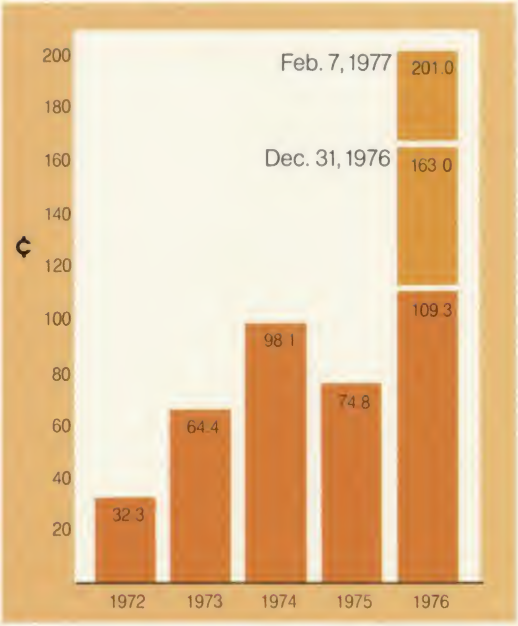
While sugar prices have declined substantially from excessive levels of two years ago, they are still above prices prevailing before that run-up. Current prices are reported to be below cost of production in this country. If this is accurate, then grower decisions and/or government actions could result in somewhat higher sugar prices in the future.

The cost of milk has increased 68% over the past five years, due in large part to government supported price levels. There is an abundant supply of this commodity both at present and predicted for the immediate future. Consequently, prices are not expected to increase at a rate greater than general price levels in the economy.

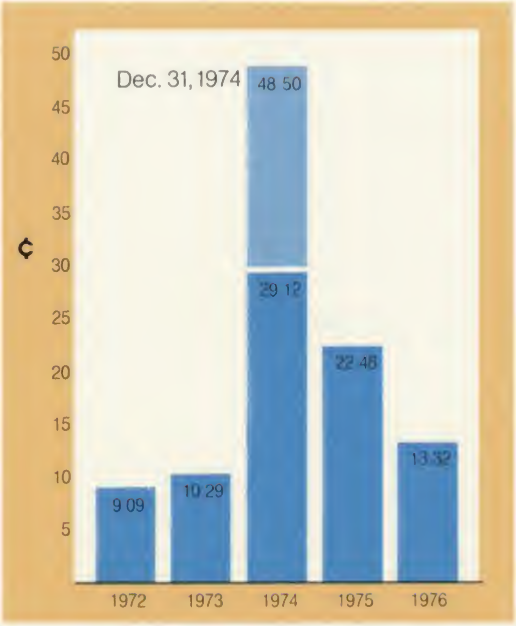
L. D. Properties

This company has four almond ranches with a total of 4,500 acres, all in the San Joaquin Valley of California. These groves, planted in the early 1970's are now mature and are producing up to expectations. In fact, the 1976 crop would have surpassed forecasts had it not been for minor rain damage sustained during the harvest season. Almond prices began 1976 at levels

Cocoa Beans
Avg. spot prices/lb. of Ghana beans — N.Y.



Sugar
Avg. prices/lb., raw sugar — U.S. Duty paid basis at N.Y.



lower than those of 1975 but strengthened as demand increased later in the year. L. D. Properties is proving to be a consistently profitable investment.

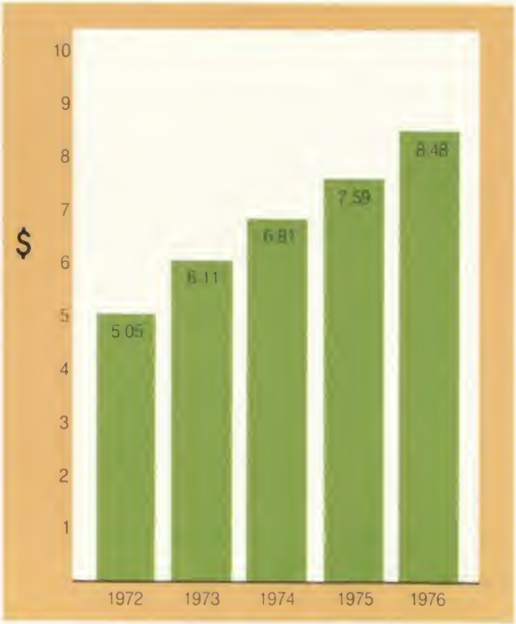
Hershey Chocolate of Canada

The Canadian operation experienced the same pressures of high cocoa bean cost as those which confronted our operations in the U.S. While dollar sales remained at the 1975 level, operating income increased significantly and resulted in a profitable operation for the second year in a row.

Although industry-wide bar sales continued to show only a slight increase, sales of the Hershey Milk Chocolate and Milk Chocolate with Almonds bars and Peanut Butter Cups showed healthy gains. Especially encouraging was the substantial growth in the sales of fund-raising items.

The continued rise in the price of cocoa beans has necessitated changing the price of bars to 25¢. Some consumer resistance is expected, and some industry observers are of the opinion that this resistance may be quite severe in Ontario if the government continues to impose its sales tax on confectionery products that retail at 25¢ or more. The Canadian managers feel confident that their recent success can be sustained, despite these uncertainties.

Milk
Avg. prices/100 lbs.
N.Y. class II for 3.5% butterfat



Food Products and Food Services

	1976	1975
Sales (in millions)	$ 75.1	$ 72.9
% Change	+ 3.0	
Operating Income (in millions) ...	$ 5.0	$ 3.5
% Change	+42.9	

The figures above relate to continuing operations only.

San Giorgio Macaroni

Lower costs of durum wheat combined with productivity gains enabled this subsidiary to lower its prices while boosting operating margins and operating income. Although sales in dollars did not improve, because of lower prices, case sales and tonnage rose markedly. Impressive gains were made in institutional sales, which is a rapidly growing market. Outstanding sales gains were also made in several consumer products such as noodles, elbow macaroni, and Italian speciality items, under both the "San Giorgio" and "Delmonico" labels.

Selling and marketing expenses were higher than in 1975, but improved gross margins enabled San Giorgio to strengthen its position in existing markets and move into new markets. In cooperation with a new advertising agency, the firm launched an ambitious marketing and consumer research program, which ultimately led to adoption of new marketing strategies.

These new programs plus indications of continued, favorable commodities prices and the outstanding performance of management and employees give promise of an excellent year in 1977 at San Giorgio.

San Giorgio is supplying 11 major markets—Philadelphia, Pittsburgh, Baltimore-Washington, Columbus, Cincinnati, Louisville, Indianapolis, Richmond-Norfolk, Southern New Jersey, Northern New Jersey, and New York City.

The Hershey Foods Corporation marked with sadness the passing of Raymond J. Guerrisi, a vice president and a son of San Giorgio's founder, on September 24, 1976.

Cory Food Services

Both sales and operating income showed improvement over 1975.

The Cory Coffee Service operation ex-

perienced continued growth in sales and operating income, notwithstanding unprecedented rises in green coffee bean prices.

Heavy frosts in Brazil's coffee growing areas in 1974 and 1975 are still having an impact and continue to adversely affect coffee roasters, packagers, and coffee service companies. The price of green coffee beans to the roasters reached a level of $2.21 per pound at the end of 1976, having doubled during the course of the year. Cory buys its coffee directly from coffee roasters.

It was necessary, therefore, to raise prices but customer understanding and acceptance has been encouraging, and volume has remained fairly constant. We believe this is attributable to the services that Cory provides, and the customer continues to view the coffee service operations as a good value. This has helped the Company to retain its strong position in the coffee service industry which it pioneered.

Cory Food Services continued its program of strengthening the management structure through the realignment of several key positions.

New products, utilizing the Therm heat bank technology acquired in 1974, have enjoyed remarkable success. In order to help meet the increased demand for the units which utilize this technology, Cory has consolidated production at its Chicago plant. A new line of products utilizing the Therm technology has been developed and will be introduced in 1977. Other projects now underway in the Cory Products operation also look promising.

Although it, too, experienced high coffee prices, Cory's Canadian operation continued its growth and again attained record profits.

Corporate Research and Development

Scientific Affairs product work has been directed toward products using ingredients that are more readily available domestically and will reduce the dependency on imported commodities. A number of confectionery and home baking products are currently under evaluation. Some of these new products will be moving into test market in 1977.

The Company's research people have expanded their work on alternate ingredients. A major activity has involved the development and testing of alternate fat products for cocoa butter—fats that are equivalent to cocoa butter in all of the performance characteristics. There has also been extensive work utilizing new high-fructose corn syrup products as an alternate for sucrose in some of our products. It is anticipated that this will provide greater flexibility and control of our usage of sugar and other sweeteners.

The Product Excellence Program, which was initiated in 1976, has progressed in a very satisfactory manner. Major components of this program are in place in each of the operating divisions. This program, augmenting other current activity, will provide the Corporation with an up-to-date and effective program for maintaining the quality of our products. It will also help us to be more responsive to consumer concerns in this age of consumerism. The program involves the development of a detailed control system that reaches back to our suppliers and supplements our own quality control system.

Energy

A continuous supply of energy in a variety of forms is essential to operations. Although our processes are not energy intensive, energy problems have been and will continue to be a major consideration in the years ahead. The Company is very concerned with the energy outlook. We are convinced the situation will not improve until a national energy policy is developed.

The extreme cold weather which persisted throughout much of the East and mid-West in January and February, 1977, triggered a natural gas shortage which limited some operations in Pennsylvania. Although serious, the impact of this shortage was minimized by contingency planning and subsequent actions to maintain production. The Company's use of multiple energy sources will continue to improve the ability to respond to energy crises.

Energy conservation, as a major part of the Company's energy management program, is the primary means of minimizing increased energy costs and improving energy availability. The Corporation has a continuing commitment to improve energy usage efficiency while maintaining product and environmental quality. It is taking every practical step to prepare for abrupt interruptions in energy supplies.

Kit Kat
HERSHEY'S
Reese's
MILK CHOCOLATE
ALMONDS
Rolo
Toffo
Chewy Caramels
San Giorgio
fresh eggs
egg noodles
POT PIE BOWS
DELMONICO
ENRICHED EGG DUMPLINGS
San Giorgio
RIPPLED EDGE LASAGNE
HERSHEY'S
CHOCOLATE FUDGE TOPPING
krackel
SPECIAL DARK
PEANUTS
Semi-sweet chocolate chips
Grains de chocolat mi-sucré
mini chips
mr. Goodbar
PEANUTS IN MILK CHOCOLATE
Rally
HERSHEY'S MILK CHOCOLATE
Milk Chocolate Chips
SPECIAL DARK
CHOCOLAT AU LAIT AMANDES
HERSHEY
MILK CHOCOLATE ALMONDS
HERSHEY'S krackel
CRISPED RICE
NEW Reese's Crunchy
HERSHEY'S MILK CHOCOLATE
NET WT. 4 OZS.

Management's Discussion and Analysis of the Summary of Operations

The financial comments relate to the current two year comparative results of operations as well as the five year financial summaries contained on pages 14 and 23.

During the five years ended December 31, 1976, Hershey Foods Corporation experienced growth in consolidated net sales. Net income showed a continued upward trend except for 1973 when Federal price restrictions, which did not allow a timely pass-through of cost increases, adversely affected earnings.

1976 Compared with 1975

Consolidated net sales from continuing operations increased by $27,936,000, or 5% to $584,264,000 in 1976 compared with 1975. The Chocolate and Confectionery Division accounted for much of the increase in sales with the Food Products and Food Services being slightly higher than 1975. The pasta division remained at about the same dollar level as 1975, although poundage increased. Cory sales were higher than 1975 reflecting higher selling prices.

Sales dollars increased in 1976 compared with 1975 in spite of average selling prices being lower in 1976 than in 1975. The increase in consumer units sold exceeded the percentage increase in sales dollars and poundage also increased.

The Chocolate and Confectionery Division decreased selling prices and increased bar weights on selected items early in 1976. In December of 1976, the Division increased prices on many items and increased weights of its standard bars. As a result, these bars, which sold in most retail outlets for 15¢, will sell for 20¢.

With respect to raw materials, the cocoa bean market prices again escalated in 1976 and reached record highs while sugar prices declined compared with 1975. Nevertheless, the Division's costs in 1976 for cocoa beans and sugar were less than in 1975. In Food Products and Food Services, the most significant cost increase was incurred for coffee. Coffee prices continue to set new record highs. The cost of flour used in pasta products declined in 1976 compared with 1975.

Selling, administrative and general expenses increased substantially in 1976 compared with 1975 because of increased promotion and selling expenses and higher consumer advertising. Advertising costs were $13,172,000 in 1976 compared with $9,325,000 in 1975.

Interest expense declined in 1976 compared with 1975. This decline in interest expense reflects an improved cash position resulting from increased cash flow from improved earnings.

Income from continuing operations was $43,205,000 in 1976 in comparison with $39,293,000 in 1975 or an increase of 10% reflecting greater increases in net sales than in costs and expenses.

Other receivables, as shown on the Balance Sheet, increased substantially at the end of 1976 compared with 1975. This was primarily because of increases in receivables resulting from increased sales of almonds grown by the Company's agricultural subsidiary, L. D. Properties; higher raw bulk milk sales and increases in margin accounts for commodity futures.

1975 Compared with 1974

Consolidated net sales from continuing operations increased by $64,333,000, or 13%, to $556,328,000 in 1975 compared with 1974. Chocolate and confectionery products accounted for the increase with food products and food services remaining at approximately the same levels as 1974. The pasta division did, however, achieve a better sales mix by selling proportionately more of the Company's brands, "San Giorgio" and "Delmonico", than private label brands. Cory revenues in 1975 were approximately the same as those achieved in its record year of 1974.

Sales dollars of chocolate and confectionery products increased substantially, reflecting higher average selling prices in 1975 compared with 1974. There was also an increase in volume of consumer units sold in 1975 compared with 1974. However, the actual poundage sold in 1975 declined as a result of lower average bar weights of many of the chocolate and confectionery items.

The Company experienced unprecedented escalation in virtually all raw material costs beginning in 1973 and continuing through 1974 and 1975. The most significant increases were incurred in sugar and cocoa beans for chocolate and confectionery products. Although market

prices of cocoa beans and, particularly, sugar receded in 1975 compared with the highs of 1974, the Company's average annual costs of these commodities were higher in 1975 than in 1974. In the case of Food Products and Food Services a significant cost increase was incurred for coffee, while the cost of flour used in pasta products declined in 1975.

Selling, administrative and general expenses increased substantially in 1975 compared with 1974 because of increased promotion and selling expenses and the resumption of consumer advertising which had been largely eliminated in 1974 and sharply curtailed in 1973.

Interest expense declined in 1975 compared with 1974 as a result of an improved cash position from increased earnings and reduced working capital requirements primarily for inventories and receivables.

Income from continuing operations was $39,293,000 in 1975 compared with $24,371,000 in 1974, or an increase of 61% reflecting greater increases in net sales than in costs and expenses. The operations of one of the Company's subsidiaries, Portion Control Industries, Inc., were discontinued December 5, 1975. Losses from these operations were $1,433,000 in 1975 and $2,277,000 in 1974. In addition, the loss on disposal of this business was $4,898,000. After giving effect to such losses, net income in 1975 was $32,962,000 versus $22,094,000 in 1974.

Prior Years

In 1974 a transition was made in chocolate bar prices to 15¢ from the 10¢ price that had been in effect since 1970.

In 1973 earnings were adversely affected by Federal price restrictions which did not allow a timely pass-through of costs. The situation was further aggravated since many of the Company's raw materials are agricultural commodities which were not covered by price controls and increased in cost during the year. The Company reduced inventory quantities, primarily cocoa beans, and this reduction resulted in a liquidation of LIFO inventory quantities which reduced cost of sales by $4,500,000 and increased net income by approximately $2,140,000 or $.16 per share in 1973.

For many years, a substantial portion of the Company's major raw materials, goods in process and finished goods have been stated at cost under the LIFO method. In 1974 the Company extended LIFO inventory accounting to sugar and certain packaging materials for its chocolate and confectionery products in order to match more realistically current costs against revenue and reduce the effect of inflation on earnings. The effect of the change was to increase cost of sales by $12,444,000 and decrease net income by $6,002,000 or $.46 per share in 1974.

Capital Additions

Capital additions in 1976 amounted to $18,374,000. Of this amount, depreciation provided $7,488,000. The Company spent $82,165,000 or an average of $16,433,000 annually for plant improvements during the past five years.

Foreign Investment

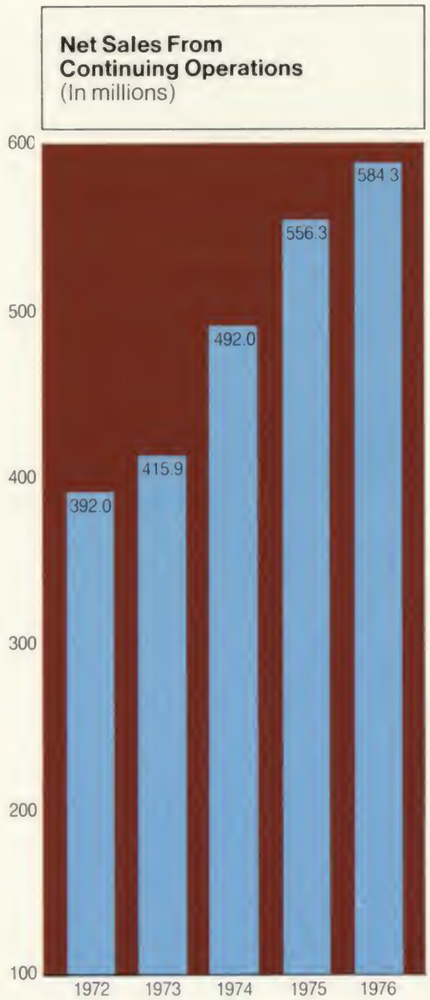
On February 16, 1977 the Company acquired a 16% interest in AB Marabou of Sundbyberg, Sweden, a leading confectionery company, for $3,500,000. The Company purchased 32,336 Class A shares and 60,000 Class B shares.

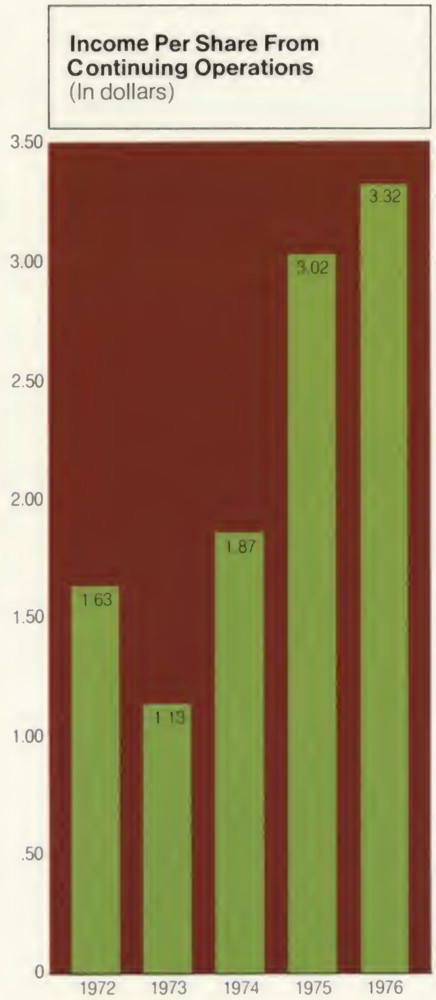
Secondary Offering

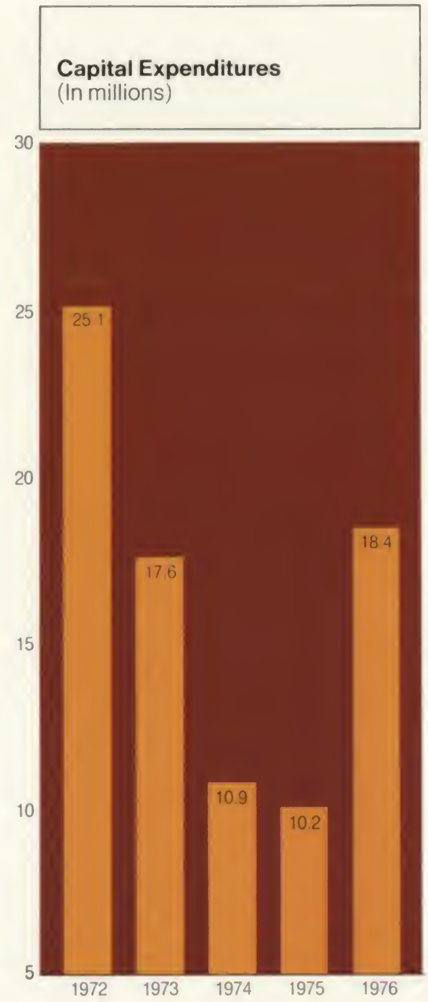
The Company filed a registration statement with the Securities and Exchange Commission for a secondary offering of 675,000 shares of its common stock on behalf of three of its stockholders. These shares were acquired by the selling stockholders in connection with Hershey's acquisition of Portion Control Industries, Inc., in 1970. The offering was made November 10, by an underwriting group co-managed by Goldman, Sachs & Co. and Bache Halsey Stuart Inc. Neither Hershey Foods nor the Hershey Trust Company, which holds 60.4% of the outstanding common shares, sold any shares in the offering.

Dividends

The Company completed its 47th year of uninterrupted dividends with the payment on December 15, 1976, of its 188th consecutive quarterly dividend on the common stock. Cash dividends of $13,415,063 were paid on the Company's capital stock in 1976 compared with $10,287,948 in 1975. Dividends in 1976 were $1.03 per share of common stock. The regular quarterly common stock dividend paid on December 15, 1976, was increased to $.28 per share from the previous quarterly rate of $.25.







Sales and Income by Class of Products (dollars in thousands)

	1976 $	1976 %	1975 $	1975 %	1974 $	1974 %	1973 $	1973 %	1972 $	1972 %
Net Sales From Continuing Operations										
Chocolate and Confectionery Products	**509,126**	**87**	483,426	87	419,225	85	351,016	84	335,042	85
Food Products and Food Services	**75,138**	**13**	72,902	13	72,770	15	64,928	16	56,962	15
Total	**584,264**	**100**	556,328	100	491,995	100	415,944	100	392,004	100
Income From Continuing Operations										
Chocolate and Confectionery Products	**84,578**	**94**	80,032	96	50,255	95	31,077	91	42,425	93
Food Products and Food Services	**5,005**	**6**	3,549	4	2,664	5	2,982	9	3,257	7
Operating Income	**89,583**	**100**	83,581	100	52,919	100	34,059	100	45,682	100
Interest, income taxes and certain general corporate expenses	**46,378**		44,288		28,548		19,384		24,360	
Income from continuing operations	**43,205**		39,293		24,371		14,675		21,322	
Losses from discontinued operations	**—**		(1,433)		(2,277)		(369)		(680)	
Loss related to disposal of discontinued operations	**—**		(4,898)		—		—		—	
Net Income	**43,205**		32,962		22,094		14,306		20,642	

Consolidated Statements of Income and Retained Earnings

	For the Years Ended December 31 1976	1975
Net Sales	$584,264,281	$556,328,095
Costs and Expenses:		
Cost of goods sold	372,574,203	368,991,744
Selling, administrative and general	89,926,139	74,768,177
Shipping	25,490,120	22,793,906
Depreciation	7,488,018	7,540,608
Interest (Net)	421,490	1,258,858
Total costs and expenses	495,899,970	475,353,293
Income from continuing operations before taxes	88,364,311	80,974,802
Provision for Federal and state income taxes (Note 4)	45,159,000	41,682,000
Income from Continuing Operations	43,205,311	39,292,802
Discontinued Operations (Note 2):		
Losses from discontinued operations (less income tax benefits of $1,372,393)	—	(1,432,839)
Estimated loss related to disposal of discontinued operations (less income tax benefits of $4,622,000)	—	(4,898,000)
Net Income	43,205,311	32,961,963
Retained Earnings at January 1	182,823,017	163,109,776
Deduct—		
Transfer to common stock in connection with restatement to $1.00 per share (Note 1)	—	2,960,774
Dividends—preferred	—	240,000
common	13,415,063	10,047,948
Retained Earnings at December 31	$212,613,265	$182,823,017
Net Income per Common Share (Note 3):		
Continuing operations	$3.32	$3.02
Discontinued operations		
Losses from operations	—	(.11)
Loss related to disposal	—	(.38)
Net income	$3.32	$2.53
Cash dividends per common share	$1.03	$ .85

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheets

Assets

	December 31 1976	1975
Current Assets:		
Cash	$ 4,521,775	$ 8,598,918
Commercial paper and certificates of deposit	51,739,871	44,763,781
Accounts receivable—trade (less allowances for doubtful accounts of $1,129,787 and $845,026)	28,164,501	21,106,279
Other receivables	15,046,289	3,604,848
Inventories (Note 1):		
Raw materials	30,490,368	32,527,283
Goods in process	7,705,880	5,711,386
Finished goods	25,634,643	30,877,977
	63,830,891	69,116,646
Prepaid expenses	1,475,540	1,283,396
Net assets of discontinued operations at estimated realizable value (Note 2)	—	4,013,000
Total current assets	164,778,867	152,486,868
Property and Equipment, at cost:		
Land	4,605,790	4,599,845
Buildings	59,499,306	56,655,167
Equipment	141,760,755	129,019,045
	205,865,851	190,274,057
Less—accumulated depreciation	81,499,718	76,512,884
	124,366,133	113,761,173
Goodwill	17,788,682	17,800,742
Other Assets:		
Deferred almond ranch development expenses (Note 1)	4,830,473	5,175,507
Deferred coffee service location costs (Note 1)	1,851,240	2,260,147
Leased net assets of discontinued operations (Note 2)	2,600,000	—
Investments	2,597,020	2,701,759
Industrial Revenue Bond trust funds (Note 5)	1,890,188	2,659,417
Other deferred charges	1,043,230	1,542,681
	14,812,151	14,339,511
	$321,745,833	$298,388,294

The accompanying notes are an integral part of these balance sheets.

Liabilities and Stockholders' Equity

	December 31 1976	1975
Current Liabilities:		
Loans payable within one year	$ —	$ 270,609
Accounts payable	17,759,969	23,498,197
Accrued liabilities	14,053,603	12,564,135
Income taxes payable	13,488,929	16,160,723
Total current liabilities	45,302,501	52,493,664
Long-Term Debt (Note 5)	29,440,000	29,856,204
Deferred Income Taxes	21,365,762	20,191,104
Stockholders' Equity (Notes 1 and 3)		
Common stock, without par value—authorized 20,000,000 shares; outstanding 13,024,305 shares	13,024,305	13,024,305
Retained earnings	212,613,265	182,823,017
Total stockholders' equity	225,637,570	195,847,322
	$321,745,833	$298,388,294

The accompanying notes are an integral part of these balance sheets.

Consolidated Statements of Changes in Financial Position

	For the Years Ended December 31	
	1976	1975
Financial Resources Provided		
Continuing Operations:		
Net income	**$43,205,311**	$39,292,802
Depreciation	**7,488,018**	7,540,608
Deferred income taxes	**1,174,658**	1,787,970
Total provided from continuing operations	**51,867,987**	48,621,380
Discontinued Operations:		
Net loss	**—**	(6,330,839)
Depreciation	**—**	714,335
Deferred income taxes	**—**	(352,570)
Property and equipment held for disposal	**(2,600,000)**	12,637,513
Total provided (applied) from discontinued operations	**(2,600,000)**	6,668,439
Proceeds from Industrial Revenue Bonds	**—**	4,000,000
Decrease in investments	**104,739**	228,217
Other	**1,546,547**	1,580,356
Total resources provided	**50,919,273**	61,098,392
Financial Resources Applied		
Cash dividends	**13,415,063**	10,287,948
Capital expenditures	**18,374,073**	10,202,569
Reduction in long-term debt	**416,204**	5,873,789
Industrial Revenue Bond trust funds	**(769,229)**	2,659,417
Total resources applied	**31,436,111**	29,023,723
Increase in working capital	**$19,483,162**	$32,074,669
Details of increase (decrease) in working capital		
Cash	**$ (4,077,143)**	$ (9,795)
Commercial paper and certificates of deposit	**6,976,090**	30,328,781
Receivables	**18,499,663**	(4,519,364)
Inventories	**(5,285,755)**	(2,780,767)
Prepaid expenses	**192,144**	(42,947)
Net assets of discontinued operations at estimated realizable value	**(4,013,000)**	4,013,000
Loans payable within one year	**270,609**	296,724
Accounts payable	**5,738,228**	13,677,778
Accrued liabilities	**(1,489,468)**	(4,862,163)
Income taxes payable	**2,671,794**	(4,026,578)
Increase in working capital	**$19,483,162**	$32,074,669

The accompanying notes are an integral part of these statements.

To the Stockholders and Board of Directors of Hershey Foods Corporation:

We have examined the consolidated balance sheets of Hershey Foods Corporation (a Delaware corporation) and subsidiaries as of December 31, 1976 and 1975, and the consolidated statements of income and retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Hershey Foods Corporation and subsidiaries as of December 31, 1976 and 1975, and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

ARTHUR ANDERSEN & CO.
New York, N.Y., February 16, 1977

Notes

1. Summary of Significant Accounting Policies

The significant accounting policies followed by the Company, as summarized below, are in conformity with generally accepted accounting principles.

Principles of Consolidation — The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries after elimination of intercompany accounts and transactions. The accounts and transactions of the Company's Canadian operations and foreign affiliates are translated in accordance with Financial Accounting Standards Board Statement No. 8. Charges and credits to income as a result of foreign currency translation are insignificant.

Inventories—Substantially all of the Chocolate and Confectionery Division inventories are valued under the "last-in, first-out" (LIFO) method. Such LIFO inventories amounted to approximately $43,805,000 in 1976 and $47,241,000 in 1975. The remaining inventories are stated at the lower of cost or market under the "first-in, first-out" or "average cost" method. Current cost which approximates FIFO cost, exceeds LIFO cost by approximately $47,797,000 at December 31, 1976 and $52,460,000 at December 31, 1975.

Depreciation—The Company and its subsidiaries follow the policy of providing for depreciation of buildings and improvements over estimated lives ranging from 20 to 50 years and of machinery and equipment over estimated lives ranging from 3 to 25 years. The companies have employed primarily straight-line methods in determining the annual charge for depreciation.

Major renewals and betterments are capitalized. Maintenance, repairs and minor renewals are expensed as incurred.

Goodwill — The excess cost of investments over net assets of the businesses acquired is carried as goodwill in the Consolidated Balance Sheets. It is the Company's policy to carry goodwill arising prior to November 1, 1970 at cost until such time as there may be evidence of diminution in value or the term of existence of such value becomes limited. Goodwill arising after October 31, 1970 is being amortized over a period not exceeding 40 years.

Deferred Items — Deferred development expenses consist of soil and water conservation payments and other preoperating expenses relating to the development of almond ranches by L. D. Properties Corporation, a wholly-owned subsidiary of the Company. Commencing in 1973, the first year of a substantial commercial harvest, the deferred expenses are being amortized on a straight-line basis over 18 years, which is the estimated commercially productive life of the almond trees.

Deferred location costs consist of certain expenses associated with the development and installation of new coffee service locations of Cory Food Services. These costs are being amortized over the life of the installation, but not to exceed four years.

Development and Promotion Expenses —The costs of research and development ($2,123,000 in 1976 and $2,008,000 in 1975) and advertising and promotion are expensed in the year incurred.

Income Taxes—Provision for Federal and state income taxes is based on income recorded in the financial statements. Deferred income taxes arise principally from the use of different methods of depreciation for tax and accounting purposes. The reduction in income taxes currently payable, resulting therefrom, is credited to deferred income taxes in the balance sheet. The provision for income taxes has been reduced by allowable investment tax credits.

Retirement Plan—The Company has a Retirement Plan covering substantially all employees. The total pension expense was $5,310,000 in 1976, and $4,007,000 in 1975. Prior to January 1, 1976, the Company used the aggregate cost method in accounting for and funding pension costs; under this method there is no separate determination of past service costs. Effective January 1, 1976, the Company increased its pension benefits to its employees and also adopted the entry age normal method of accounting for pension costs under which unfunded past service costs, estimated at $52,000,000 will be funded over a 30 year period. The actuarily computed value of the vested benefits at that date exceeded the assets of the plans by approximately $16,000,000.

Common Stock—On February 18, 1976, the Board of Directors approved a resolution to restate the value of common stock to $1.00 per share and adopted the policy of accounting for treasury shares as if retired.

2. Discontinued Operations

Effective December 5, 1975, the Company discontinued the operations of Portion Control Industries, Inc. a Chicago-based manufacturer of frozen, prepared foods for the food service industry. This subsidiary had been acquired in a pooling of interests in 1970 and had been operating at a loss for the four years ended December 31, 1975. The Company's investment in this subsidiary has been written down to the estimated realizable value of the assets.

The sales of this subsidiary ($11,947,000 in 1975), together with applicable operating expenses, have been excluded from the consolidated results of continuing operations.

The disposal of all assets including plant and equipment has been completed except for a plant which the Company still owns and is presently leasing with an option to purchase by the lessee.

3. Net Income Per Share

Net income per common share has been computed based on the average shares of common stock and common stock equivalents outstanding during the period (13,024,305 in 1976 and 13,024,275 in 1975).

The shares of Cumulative Preferred Stock, outstanding during 1975 and converted at December 31, 1975, have been included in the computation at their common equivalent of three shares of common for one share of preferred.

4. Income Taxes

The provision for income taxes from continuing operations exceeds taxes currently payable by $1,174,658 in 1976 and $1,787,970 in 1975, primarily because tax depreciation exceeds book depreciation as a result of using accelerated methods for tax purposes.

The following is a reconciliation of the provision for income taxes on continuing operations included in consolidated income and the amount computed by applying the Federal statutory rate to income before income taxes.

	1976		1975	
	Amount	%	Amount	%
Taxes computed at statutory rate	$42,414,869	48.0	$38,867,905	48.0
Increase (reductions) resulting from:				
State income taxes, net of Federal income tax benefit	3,538,080	4.0	3,283,280	4.1
Investment tax credit	(938,800)	(1.1)	(648,627)	(.8)
Other, net	144,851	.2	179,442	.2
Provision for income taxes	$45,159,000	51.1	$41,682,000	51.5

5. Current and Long-Term Debt

Long-term debt at December 31, 1976 and 1975 consisted of the following:

	1976	1975
	(dollars in thousands)	
7¼ % Sinking Fund Debentures due 1997 with annual payments of $1,500,000 beginning in 1978	$30,000	$30,000
Less—Debentures repurchased	(4,560)	(4,560)
6⅞ % Industrial Revenue Bonds due 2000 through 2005	4,000	4,000
Various other loans, less current portion of $118,000 at December 31, 1975	—	416
	$29,440	$29,856

As a result of seasonal working capital requirements, the Company maintained lines of credit from a domestic bank for $20,000,000 in 1975 and increased the amount to $60,000,000 with several domestic banks in 1976. There were no borrowings in either 1975 or 1976 under these lines of credit.

The Company had borrowings in 1975 but not in 1976, under a $45,000,000 revolving credit and term loan agreement with two domestic banks. This agreement terminated in April, 1976. Average borrowings in 1975 under this agreement were $4,448,000 with a maximum of $19,000,000, and no borrowings were outstanding at December 31, 1975. The weighted average interest rate for 1975 borrowing was 7½%. The agreement had called for a commitment fee of ½ of 1% of the unused portion of the commitment and contained restrictive covenants on working capital and funded debt.

Under these credit arrangements, there are no compensating balance agreements which legally restrict funds; however, the Company has been expected to and has generally maintained average compensating balances of 15% to 20% of borrowings or generally not less than 5% of commitments.

Industrial Revenue Bonds in the amount of $4,000,000 were issued on April 1, 1975, by the Dauphin County Industrial Development Authority to provide financing for certain pollution control and environmental expenditures by the Company. The Company is solely responsible for payment of principal and interest. The unexpended balance of these funds at December 31, held by a Trustee was $1,890,000 in 1976 and $2,659,000 in 1975.

During 1975, the Company purchased $4,560,000 of its 7¼% Sinking Fund Debentures due 1997. The pre-tax gain of $490,200 due to the extinguishment of debt resulting from this purchase was credited to income. The Company intends that these bonds will be used to meet sinking fund obligations beginning in 1978.

6. Lease Commitments

The Company rents and leases office space, automobiles and equipment, the aggregate annual cost of which is less than 1% of net sales.

7. Management Incentive Plan

On April 14, 1975 the stockholders of the Company approved the adoption of a Management Incentive Plan. Persons eligible for participation in the Plan are employees of the Company and its subsidiaries who have substantial managerial or similar responsibilities. The amount charged to expense was $644,000 in 1976 and $450,000 in 1975.

8. Impact of Inflation—(unaudited)

The Company's products and services have been subject in varying degrees to the inflation affecting the general economy and the goods and services purchased by the Company.

Since the major portion of inventories are costed at LIFO (last-in, first-out) the rapid escalation in product costs has been substantially reflected currently in cost of sales. The same situation does not exist with respect to plant and equipment and related depreciation charges. The cumulative impact of inflation over a number of years would result in replacement cost of existing plant and equipment and related depreciation being higher than actual historical cost.

Reference is made to the Annual Report Form 10-K (copy available on request) for additional information with respect to the estimated replacement cost of inventories and plant and equipment at December 31, 1976, and the related estimated effect of such costs on cost of sales and depreciation expense for the year then ended.

9. Selected Quarterly Financial Data 1976: (unaudited)

(dollars in thousands)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net sales	$158,709	$107,703	$141,914	$175,938
Costs and expenses	129,519	94,439	120,783	151,159
Income before taxes	29,190	13,264	21,131	24,779
Provision for Federal and state income taxes	14,800	6,724	10,714	12,921
Net income	$ 14,390	$ 6,540	$ 10,417	$ 11,858
Net income per common share	$1.10	$ .51	$ .80	$ .91

Remember the Nickel Bar?

The Hershey Bar is something special to those of us who work at Hershey Foods Corporation, and we believe it is special to millions of consumers as well. Though our bar continues to be produced under the highest standards of quality and remains, in our estimation, the best chocolate bar in the world, it has changed in size and price over the years. Consumers occasionally ask us about those changes, and we offer the following response.

The late 1960's saw our standard 5¢ milk chocolate bar shrink to .75 ounce before it was discontinued in November 1969. Our 10¢ bar was discontinued at the end of 1973 when it weighed 1.26 ounces. The 15¢ standard bar, introduced on January 1, 1974, weighed 1.4 ounces. Two weight reductions followed, but in January 1976 the weight was increased to 1.2 ounces. Then, in October, 1976, we discontinued the 1.2 ounce bar and introduced a 1.35 ounce bar priced to sell for 20¢ in most retail outlets. In early 1977 that bar was reduced in size to 1.2 ounces.

Why have the sizes and prices of our standard bars changed so much in recent years? It boils down, of course, to the cost of making the bars. A few examples: In 1971 the average New York spot (immediate delivery) price of cocoa beans grown in Ghana (the world's largest producer) was 26.8¢ per pound. In 1972 the average price was 32.3¢; in 1973 it was 64.4¢; and in 1974 it was 98.1¢. In the fall of 1974 the price had peaked at $1.30 per pound. Prices then receded, and in 1975 the average price per pound was 75¢. In 1976 the price rose to $1.63 and averaged $1.09. By February 7, 1977, it had reached $2.01 per pound.

The average price of domestic raw sugar in 1973 was 10.29¢ per pound. In 1974 the price rose to 66¢ per pound in the fall and ended the year at 48.5¢ per pound. The averages for the years 1974 and 1975 were 29.12¢ and 22.5¢ per pound. While the price of sugar continued to decrease in 1976, to an average price of 13.32¢ per pound, it remains above prices prevailing before the 1974-1975 run-up.

Other costs are up, too. Packaging materials and transportation charges continue to rise, as do the paychecks of the people who work in our plants and offices.

Thus, if it costs more to make a Hershey Bar today than it did last year or the year before, something must change—the quality of the product, the profit of the maker of the product, or the sizes and/or prices of the product.

High quality is extremely important to Hershey. People have come to expect top quality in Hershey's chocolate. We believe it is a matter of common sense that our quality must be maintained if we expect people to continue to purchase and enjoy our products.

A fair profit is also extremely important, and Hershey's profit has, in fact, changed. The following ten-year listing of net income per each dollar of sales for the whole Corporation illustrates that.

1965	11.7¢	1971	5.4¢
1966	11.1¢	1972	5.4¢
1967	8.5¢	1973	3.5¢
1968	6.7¢	1974	5.0¢
1969	4.1¢	1975	7.1¢
1970	5.4¢	1976	7.4¢

Production efficiencies can help, and at Hershey they have improved. But, as in other industries, they have not kept pace with rising costs in recent years.

When profits are low, it becomes more difficult for the Company to raise more money for expansion or for improvements to its buildings and production lines. It becomes more difficult to pay higher wages and salaries. And those people who have risked their own capital to support the Company's existence—the stockholders—are shortchanged.

That brings us back to the sizes and prices of our bars; and, as mentioned above, size and price vary. But let's view these changes in relation to other things that have been happening over the past 25 years.

The present standard bar at 1.2 ounces is actually 20% larger than our standard "nickel" bar in 1950. Significantly, the average consumer's ability, in terms of his hourly pay, to purchase our larger bar at 20¢ is approximately the same on a per-ounce basis as it was 26 years ago when a smaller bar cost a nickel.

Interestingly, other traditional "nickel items" have been subject to similar changes. Your daily newspaper, for instance. Or a cup of coffee. And if you survey the price histories of some other foods over the last quarter of a century, or that of medical care, transportation, housing and taxes, or if you compare wage levels over that time span, we believe you will find that our "Great American Chocolate Bar" has withstood inflationary pressures rather well.

Five-Year Financial Summary Hershey Foods Corporation and Subsidiaries

(All dollar and share figures in thousands—except market price and per share statistics)

	1976	1975	1974	1973	1972
Summary of Earnings					
Continuing Operations					
Net Sales	$ 584,264	556,328	491,995	415,944	392,004
Cost of Goods Sold	$ 372,574	368,992	357,830	294,174	255,162
Operating Expenses	$ 122,904	105,102	81,792	88,318	91,595
Interest Expense (Net)	$ 421	1,259	2,190	4,848	3,246
Income Taxes	$ 45,159	41,682	25,812	13,929	20,679
Income from Continuing Operations	$ 43,205	39,293	24,371	14,675	21,322
Losses from Discontinued Operations	$ —	(1,433)	(2,277)	(369)	(680)
Loss Related to Disposal of Discontinued Operations	$ —	(4,898)	—	—	—
Net Income	$ 43,205	32,962	22,094	14,306	20,642
Net Income—Per Share of Common Stock					
Continuing Operations	$3.32	3.02	1.87	1.13	1.63
Discontinued Operations					
Losses from Operations	$ —	(.11)	(.17)	(.03)	(.05)
Loss related to Disposal	$ —	(.38)	—	—	—
Net Income	$3.32	2.53	1.70	1.10	1.58
Dividends per—Common Share	$1.03	.85	.80	1.10	1.10
Preferred Share	$ —	.60	.60	.60	.60
Average number of Common Shares and Equivalents Outstanding during the year	13,204	13,024	13,024	13,024	13,064
Per Cent of Net Income to Sales*	7.4%	7.1%	5.0%	3.5%	5.4%
Financial Statistics					
Capital Expenditures	$ 18,374	10,203	10,887	17,564	25,137
Depreciation*	$ 7,488	7,541	7,912	7,010	5,622
Advertising*	$ 13,172	9,325	1,744	9,565	13,954
Current Assets	$ 164,779	152,487	125,497	97,106	108,667
Current Liabilities	$ 45,303	52,494	57,579	23,456	29,789
Working Capital	$ 119,476	99,993	67,918	73,650	78,878
Current Ratio	3.6:1	2.9:1	2.2:1	4.1:1	3.6:1
Long-Term Debt	$ 29,440	29,856	31,730	51,470	51,364
Debt-to-Equity Per Cent	13%	15%	18%	32%	32%
Stockholders' Equity	$ 225,638	195,847	173,173	160,777	159,714
Stockholders' Data					
Outstanding Common Shares at Year-End	13,024	13,024	11,824	11,824	11,824
Market Price of Common Stock—					
At Year-End	$ 22⅜	18⅝	9¾	12⅝	23⅞
Range During Year	$ 18½-27½	10⅛-20⅞	8½-15	12½-24¾	21⅛-28¾
Number of Common Stockholders	20,031	19,279	19,362	19,095	17,980
Employees' Data					
Payrolls	$ 83,396	74,329	72,936	74,464	67,700
Number of Employees—Year-End	7,140	7,150	7,200	8,500	8,530

*Restated to reflect continuing operations only.


O. C. Johnson (left)
Vice President, Scientific Affairs

J. S. Harkins (right)
Vice President, Finance and Administration


W. P. Noyes (left)
Vice President, Human Resources

J. P. Viviano (right)
President, San Giorgio Macaroni, Inc.


R. M. Marcks (left)
Vice President, International

J. K. Morris (right)
President, Hershey Chocolate of Canada



E. J. Spangler (upper left)
President, Hershey Chocolate & Confectionery Division

W. F. Suhring (lower left)
Vice President, Corporate Development

G. E. Wilber (right)
President, Cory Food Services, Inc.

Annual Meeting

The Annual Meeting will be held at 2 p.m. on Monday, April 11, 1977, at the Hershey Motor Lodge and Convention Center, Route 322 and University Drive, in Hershey.

A formal notice of this meeting, together with a proxy statement, will be mailed to stockholders on or about March 14, 1977.

Stockholders who are unable to attend the meeting are urged to sign and return their proxies promptly so the stock of the Company will be represented as fully as possible at the meeting.

Form 10-K

The Annual Report to the Securities and Exchange Commission on Form 10-K is available upon written request to the Secretary of the Corporation, 19 East Chocolate Avenue, Hershey, Pa. 17033.

Principal Securities Market

The common stock is listed on the New York Stock Exchange.

Executive Offices

19 East Chocolate Avenue
Hershey, Pa. 17033

Transfer Agent and Registrar

Citibank, N.A.
111 Wall Street
New York, N.Y. 10015

Auditors

Arthur Andersen & Co.
New York

Board of Directors

H. S. Mohler, *Chairman*
W. E. C. Dearden, *Vice Chairman*
J. Hemphill
Director of Cocoa Bean Purchases of the Corporation
J. C. Jamison
Investment banker, Partner, Goldman, Sachs & Co.
S. A. Schreckengaust, Jr.
P. A. Singleton
President, Singleton Associates International
L. C. Smith
J. C. Suerth
Chairman and Chief Executive Officer, Gerber Products Company
R. L. Uhrich
R. A. Zimmerman

Officers

H. S. Mohler
Chairman of the Board
W. E. C. Dearden
Vice Chairman of the Board and Chief Executive Officer
R. A. Zimmerman
President and Chief Operating Officer
J. S. Harkins
Vice President, Finance and Administration
O. C. Johnson
Vice President, Scientific Affairs
R. M. Marcks
Vice President, International
W. P. Noyes
Vice President, Human Resources
S. A. Schreckengaust, Jr.
Vice President, Corporate Counsel
L. C. Smith
Vice President, Engineering
W. F. Suhring
Vice President, Corporate Development
R. L. Uhrich
Vice President and Secretary
L. W. Simmons
Assistant Vice President and Comptroller
K. L. Wolfe
Treasurer

Hershey Foods Corporation
Hershey, Pa. 17033, U.S.A.

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